C.D. Howe Institute
Commentary

ISSN 0824-8001

The Urban Papers

Local Government Amalgamations

Discredited Nineteenth-Century Ideals Alive in the Twenty-First

Robert L. Bish

In this issue...

In the rapidly changing world of the twenty-first century, flexible local governments are better able to provide services at less cost than monolithic amalgamations.

The Study in Brief

The twenty-first century will be one of rapid change and great need for institutional adaptability. Yet, in the critical area of the relationships among citizens, the civil community, and local governance, some provincial governments are imposing an intellectual fashion of the nineteenth century in the form of an almost religious faith in monolithic organizations and central control.

This *Commentary* undertakes a comprehensive review of 50 years of evidence on the relationship between the structure and performance of local governments in metropolitan areas. That body of evidence strongly suggests that, given the diversity of communities and local services, no single organization can perform all the tasks demanded of local government.

Metropolitan areas composed of a multiplicity of local governments and production arrangements are more responsive to residents' needs and generally provide local government services at less cost than monolithic amalgamations. The superior performance of such a polycentric structure for local government stems from rivalry among governments and from their use of a variety of production relationships with organizations of various scales, including cooperation with one another. In addition, multiple local governments are no hindrance to economic growth — indeed, some of the fastest-growing metropolitan areas are also among the most governmentally fragmented. Amalgamation, on the other hand, tends to eliminates the very characteristics of local government that are critical to the most successful and least costly systems.

Most important, however, is that policymakers need to change their way of thinking about urban governance, from the obsolete and discredited idealization of large hierarchical organizations to a research-based understanding of the conditions under which cities can function successfully and meet the needs of Canadians in urban areas into the future.

The Author of This Issue

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$10.00; ISBN 0-88806-525-6

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

— John Maynard Keynes

There is every reason to believe that the twenty-first century will see even more rapid changes and a greater need for adaptability of ideas and institutions than the twentieth. Yet, in a critical area of policy — the relationship between citizens, the civil community, and governance — some provincial governments are pursuing and imposing the intellectual fashions of the nineteenth century as if those fashions were the embodiment of "common sense." Single governing councils and large organizations are simply incapable of dealing with the diverse range of issues that governments must deal with in urban areas. The diversity of metropolitan areas requires close links to citizens and the ability to handle a wide variety of activities on a small scale. For some activities, on the other hand, the commonality of an entire metropolitan area requires mechanisms capable of integrating local diversity. The current weight of the evidence is that *no single organization can accomplish these tasks*. Furthermore, when there is a multiplicity of small municipalities in metropolitan areas, the costs of governance are lower, not higher, and, moreover, the political system is more representative. The issue at

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I have studied and written about the structure of local government and amalgamation issues since 1971, and I owe a tremendous debt to Professor Vincent Ostrom as both a teacher and colleague. Vincent, along with Charles Tiebout (1956) and Robert Warren (Ostrom, Tiebout, and Warren 1961), raised many serious concerns about large urban governments far before such concerns were widely recognized. I had the privilege of writing early work on this topic in collaboration with both Vincent (Bish and Ostrom 1973) and Robert Warren (Bish and Warren 1972), and later again with Vincent and Elinor Ostrom (Ostrom, Bish, and Ostrom 1988). It has been rewarding to see the tremendous increase in empirical research since those early days, and even more rewarding to see that the ideas proposed by a small group of scholars nearly half a century ago provide questions and conceptual approaches suitable for the even more rapidly changing twenty-first century. Because not all the related work could be cited in this *Commentary*, other relevant work is included in the bibliography and reference list for those who wish to pursue these issues further. More recently, I have been privileged to work with Jim McDavid, Dale Poel, and Andrew Sancton in monitoring the creation of the Halifax Regional Municipality. As a market-oriented economist, I have always considered governance (or demand) to be of equal importance to production (supply), but I thank Ron Oakerson (1999) and Andrew Sancton for reminding me of the importance of a sense of community that was also important in the early work of Ostrom and Warren, but that, as an economist, I had neglected over the years.

I wish to thank Jim McDavid, Dale Poel, Andrew Sancton, Mark Sproule-Jones, anonymous reviewers, and C.D. Howe Institute staff for comments on earlier drafts of this paper. All observations, conclusions, and opinions presented, however, are my responsibility.

hand is how the necessary multiplicity of organizations can be created and how they can relate to one another so that the system as a whole is efficient, responsive to citizens, and adaptable to changing conditions. This organizational challenge also poses an intellectual challenge, but similar intellectual challenges have been encountered before.

In the late eighteenth century, Adam Smith, among others, asked how it was that individual consumers and businessmen, each acting in his or her own self-interest, could create higher living standards for all. Understanding this was crucial because only with decentralized decisionmaking could the growth that comes from specialization and trade be realized. Smith was not an advocate of simple *laissez-faire;* he recognized the importance of government for certain tasks and the problem that businessmen would collude to create monopolies (often in cooperation with government) to take advantage of consumers. The subsequent century was characterized by tremendous market success, abuses of monopoly power by industrialists, and, in many places, corruption in governments. One response to those excesses was the idealization by intellectuals of bureaucracy, partly because of the successes of the Prussian bureaucracy. By the end of the nineteenth century, the intellectual ideal was the planned economy based on socialist principles and unitary political systems and with a professional bureaucracy. It was expected that such economies would replace the chaos of markets, the rivalries of federalism, and corrupt politicians. Since then, we have seen the economic results of socialist planning in the Soviet Union, North Korea, and Albania, among others, while the most successful societies have learned to use government and changes in law to moderate abuses in markets. Likewise, we have learned to make governments more honest, not by simplifying them and giving more power to bureaucracies, but by making them more accessible to citizens, increasing checks and balances, and creating human rights codes and international institutions based on federalist principles on a multinational scale, especially in Europe. The evolution of institutions based on markets, checks and balances, and human rights codes has coincided with ever-higher living standards in the countries that have adapted to these changes. As a result, centralized socialist planning and unitary political systems run by professionals have lost all relevance to policy. They live on, however, in the debates over the organization of local government.

Centralized socialist planning and unitary political systems run by professionals have lost all relevance to policy. They live on, however, in the debates over the organization of local government.

While less visible, both the debates and the changes in the organization of local government follow patterns of markets and federal systems. This *Commentary* describes what is known about the relationship between structure and performance of local governments, especially in metropolitan areas. This examination also provides an indication as to what principles are most helpful for local government organization in the twenty-first century.

What is known about the relationship between the structure and performance of local governments is presented in five sections. The first section is a very brief history of ways of thinking about local government organization. The second is a brief summary of observations on governance. How governance is organized is just as important as the organization of production, because governance is the process through which citizens' wishes are expressed, and for any evaluation of efficiency the demand side of an economic analysis is just as important as the supply side. The third section reviews evidence about the production of local

government services and the arrangements under which those services are likely to be produced most efficiently. The fourth section summarizes evidence about the relationship between government organization and costs; the fifth section indicates how organization for responsive governance and efficient production fit together and makes some observations about Canadian systems. The final two sections summarize the conclusions and describe what the evidence shows to be the most important policy recommendations for local government for the twenty-first century, rather than the nineteenth.

Thinking about Local Government

The religious-like idealization of professional bureaucracies by intellectuals was also applied to local governments.

The religious-like idealization of professional bureaucracies by intellectuals at the end of the nineteenth century was also applied to local governments (Ostrom 1973). The evolution of a multiplicity of local governments in metropolitan areas was viewed as chaotic, and the ideal structure was codified in university texts and other scholarly writing early in the twentieth century. The consensus of the age is expressed well in a 1925 book (Anderson 1925, 641–642):

- Each major urban area should have only one unit of local government. This would allow for area-wide planning, economies of scale in service production, and the extension of infrastructure to the entire area. Today, we would call this a "single-tier" model in which the tier encompasses the entire metropolitan area.
- The voters should elect only the most important policymaking officials, and these should be few in number. At-large elections were recommended so that the council would represent the city as a whole, not its different parts.
- Administration should be separated from politics; there should be a single chief administrative officer, and specially trained public servants staffing the bureaucracy. Implied in the desire for specially trained public servants is both a rejection of patronage appointments and the assumption that the public servants would use modern management techniques.

Small governments were considered unprofessional and inefficient, and fragmentation of authority, either within a government or among multiple local governments, was viewed as a source of weakness that would prevent coordination. Only with a single, professionally organized government, it was believed, could an urban area be governed properly and public services produced efficiently. These ideas dominated the first half of the twentieth century and reappeared from time to time in the second half.

By the 1960s, serious questions were being raised about metropolitan-wide single-tier governments. One reason was that people in different areas had different problems and appeared to prefer different local services. Another was that local governments needed to be small enough to be part of the civil community and not remote from local issues (Kotler 1969). Still another reason was the simple practical observation that most services did not possess economies of scale — that is, that the costs of production did not fall as production was undertaken on a larger and larger scale but rose instead (Hirsch 1970). One solution that emerged was a "two-tier" system, in which some services would be provided by a lower tier and others

by a second, or higher, tier. These two-tier systems were of two types. One superimposed a metropolitan government on top of independent municipalities — as was done in Toronto in 1953 and in Winnipeg in the early 1960s. The other abolished the existing municipalities and imposed a metropolitan government with some kind of provision for community representation within the larger structure, as was done in Winnipeg in 1972, more recently in Halifax in 1996, in Toronto in 1998, and is currently proposed for five areas in Quebec. The older two-tier systems have not endured; most notably, attempts at decentralization appear to fail when they come into conflict with the quest for uniformity by a large professional bureaucracy.

A fundamentally different challenge to the single-tier system arose primarily among scholars who built on the emerging economic theory of public goods and on theories of the operation of polycentric systems (such as the theory of markets and the theory of federal systems). What emerged was a fundamentally different way of understanding how a public economy works in a metropolitan area.[1] This approach began with a very simple idea: Local governance, especially in metropolitan areas, is increasingly complex, and it is providing the great majority of citizens with local services at a reasonable cost. Should we not try to understand how such systems actually work before recommending a replacement? This question is analogous to the one Adam Smith faced 200 years earlier when, in the face of the emergence of increasing complexity in the economy, he tried to explain how it worked rather than continue to advocate the central planning of mercantilism.

Local governance is providing the great majority of citizens with local services at a reasonable cost.

Called "public choice," this approach criticizes the tier system from two points of view:

- If we want governments to respond to citizens' wishes, the nature of public goods and services may require more than one or two governments, some varying by scale (from community to regional) and others by function (such as municipal services, education, health, social services, and so on). There is no magic number.
- If we want the production of local services to be efficient, the organization of production by one large monopolistic bureaucracy is unlikely to achieve that objective, for two reasons. First, different activities possess different scale

1 The classic article in economics is Charles Tiebout's "A Pure Theory of Local Expenditures" (1956) and in political science, Ostrom, Tiebout, and Warren's "The Organization of Government in Metropolitan Regions: A Theoretical Inquiry" (1961). The first summary and application of rational choice theory to the structure of local government is in my *The Public Economy of Metropolitan Areas* (Bish 1971), and one of the early critiques of amalgamation and advocacy of the use of public choice theory is in Bish and Vincent Ostrom's *Understanding Urban Government: Metropolitan Reform Reconsidered* (1973). A recent contribution is Ronald Oakerson's *Governing Local Public Economies: Creating the Civic Metropolis* (1999). An edited collection that includes many of the classic articles on local government is *Polycentricity and Local Public Economies*, edited by Michael D. McGinnis (1999). An exposition of the importance of public choice theory in influencing the way the organization of local government is thought of by non–public-choice scholars is provided in G. Ross Stephens and Nelson Wikstrom, *Metropolitan Government and Governance: Theoretical Perspectives, Empirical Analysis, and the Future* (2000). Although the same theoretical debates over the structure of local government have not taken place in Canada, the work of many Canadian scholars is consistent with public choice theory, and two major Canadian economists, Albert Breton and Anthony Scott, were early contributors to the general literature on how federal systems work (Breton and Scott 1978).

characteristics, and no single organization is the right size to produce all of them efficiently. Second, it is unlikely that any large monopolistic producer (be it public or private) will operate efficiently.

These two starting points, the first commonly the domain of political scientists and the second the domain of economists, have stimulated critiques of the proposals for one- and two-tier systems and major research efforts to understand how polycentric systems actually function. This research has been done primarily by economists and political scientists, often together and with considerable integration between the disciplines. Most important, this research is based on the idea that one must take into account simultaneously (1) the preferences of citizens and other actors in the system; (2) the nature of the good or service desired; and (3) the structure of the institutions through which demands are expressed and production decisions made (Bish 1971).

Institutional arrangements are intended to serve citizens and consumers first, and any benefits to others should not be extorted through the coercive power of government.

This research involves both value judgments and attempts to predict the consequences of a change in the organization of local government or the production of local services. The primary value judgment is that institutional arrangements are intended to serve citizens and consumers first, and that any benefits to politicians, administrators, and bureaucrats in the case of government, and to business owners, executives, and employees in the case of firms *are earned by producing benefits for citizens and consumers* and not extorted through the coercive power of a government or a monopoly position in a market. These values are also those found in the writings of classical liberals including Adam Smith's *The Wealth of Nations* and James Madison and Alexander Hamilton's *The Federalist*, on which this approach builds (Bish 1987). The normative values, however, are also held by many scholars who use different frameworks in their research, especially those who describe themselves as classical liberals.

Governance

Governance includes processes through which local governments are created or changed and responsibility for different functions is determined; processes by which citizens select officials, perhaps vote directly on specific initiatives, and communicate with officials either individually or through groups; processes by which officials decide what to regulate or produce, how to implement regulation or organize production, and how to finance government and its activities. In Canada, provincial governments set the rules of procedure for local governments and the limits on their jurisdiction. Different provinces, however, undertake the creation of and changes to local governments very differently and make very different rules for their operation.

Organization

Local governments are organized to provide services that are either mandated by provincial governments or determined to be desirable by groups of residents. The organization of local governments and the functions they undertake must be responsive to the spatial patterns of development in an urban area.

The spatial patterns most important for the organization and operation of local government include the historical evolution of a central city dominated by a downtown business core and a nearby manufacturing or warehousing area adjacent to the principal means of transportation (originally train or ship), both of which were surrounded by sectorally divided rings of residences. The three main kinds of neighborhoods were those where the number of employees during the day outnumbered the number of residents, those where there were about the same number of residents and employees, and those that were almost exclusively residential. As urban areas grew, the most common pattern was that different areas outside the central city incorporated themselves into different local governments, often with increased specialization internally and greater differentiation from their neighbors (Weber 1967; Mumford 1961; Bish and Nourse 1975; Logan 1976; Fisher and Wassmer 1998). Historically, the different areas in the central city preferred and needed different kinds of local public services, as do the different local government areas today. Once a neighborhood or local government has an image, the businesses and residents attracted to the area are those that prefer what it has to offer, and they reinforce adherence to the image (Speight 1968; Mansbridge 1980; Briffault 1996). Furthermore, local government boundaries often help create a civil community for nongovernmental activities (Briffault 1996, 1125–1126).

The evolution of local governments that have different images and offer different kinds and levels of local services has occurred in every large North American metropolitan area.

The evolution of local governments that have different images and offer different kinds and levels of local services has occurred in every large North American metropolitan area. Charles Tiebout (1956) recognized that when local governments offer different levels and kinds of services, businesses and residents are better able to satisfy their preferences for different levels of services and taxation by having several local governments among which to choose. Several political scientists have questioned whether citizens know enough about taxes and services to make such choices (see, for example, Lowery et al. 1995), but surveys of citizens who are actually moving (in contrast to surveys of all residents) reveal that their knowledge of local taxes and services is equal to that possessed by consumers in private markets (John et al. 1995; Percy et al. 1995; Teske et al. 1973). The surveys also show that local government taxes and services are taken into account, although they are not the most important factors in the choice of a business or residential location.

Further research clarifies that different governments or arrangements that encompass the different geographic scales of various activities are also needed in order to supplement smaller local units (Ostrom, Tiebout, and Warren 1961; Bish 1971). This is consistent with the observation that all metropolitan areas have governments or joint governmental arrangements for responsibilities such as schools or health and for regional activities such as transit, sewage treatment, and economic development, as well as other regional organizations, such as arts councils and the United Way, that contribute to a regional sense of a civil community. The result is a multiplicity of organizations and organizational arrangements on both a small and a large scale (Atkins, Dewitt, and Thangavelu 1999).

Although the evolution of patterns of local government in growing urban areas has been similar across North America, different areas have emerged with central cities of different sizes, and some state or provincial governments have reorganized their local governments, usually trying to make the system simpler, as in the recent amalgamations in Ontario, New Brunswick, and Nova Scotia. Other jurisdictions,

including Alberta and British Columbia, have left municipal organization up to local initiative. The differences that have emerged also provide the opportunity for systematic research on the consequences of differently organized local governments.

Citizen Representation

For governments to be responsive and efficient, citizens must be able to make their wishes known. The means by which this is done include public meetings, hearings, elections, and direct contact with officials. The traditional view is that such processes are more effective in smaller governments, a view that is supported by systematic research (see, for example, Dahl and Tufte 1973; Smith and Stewart 1998; Shepard 1975). Researchers draw the following conclusions:

- The larger the government, the more likely that well-organized groups with special interests will dominate public hearings and meetings and that unorganized citizens will participate less.
- Voter turnout in local government elections tends to be higher in smaller local governments. In a detailed analysis of different sizes of local government in British Columbia, Smith and Stewart (1998) find that the larger the government (if elections are at large) or constituency, the lower the voter turnout. Sproule-Jones and Klaveren (1970–71) find the same result for referendums: the smaller the government, the higher the turnout. These comparative data are consistent with before-and-after studies. For example, after the amalgamation of the City of Jacksonville and Duvall County, Florida, voter turnout fell by an average of 18 percent (Seamon 1995).
- The smaller the government, the more similar are citizens' and councillors' attitudes toward policy questions.
- The larger the government and constituency, the more expensive it is to campaign for office; in larger governments, campaign donations from special interest groups become critical.[2]

The smaller the government, the more similar are citizens' and councillors' attitudes toward policy questions.

Large municipalities that keep their constituencies small to overcome representation problems encounter a different problem — namely, that councils are too large for effective decisionmaking and it is hard to create committees that truly represent the entire council (Bish 1971, chap. 3). Some political scientists feel that the only way these large systems can function adequately is with a strong municipal party system (Smith and Stewart 1998), but evidence from the eastern United States, where local government elections are party based, shows that a single party usually comes to dominate the government. State governments have recognized this and have sometimes reorganized local governments specifically to change the winning party, as in the case of the Indianapolis-Marion County merger, where, by combining the suburbs and the central city, the dominant party changed from Democratic to Republican (Bloomquist and Parks 1995b).

2 Bish (1999e) provides detailed statistics on the costs of campaigning in the 12 municipalities of the capital region of British Columbia and some comparisons with larger municipalities in that province.

On balance, citizens are represented better in smaller local governments. Elected officials are more likely to be representative of their constituents, and policymaking is easier because smaller local governments possess an image that all tend to understand and want to reinforce (Nelson 1992; Martins 1995; Schwartz 1988; Speight 1968). Systems that include small governments can also deal with regional issues, and all metropolitan areas have developed institutional arrangements for dealing with both large- and small-scale problems.

Several issues arise, however. First, a multiplicity of governments in an urban area does not in itself mean that the system will function well — just as a multiplicity of organizations in markets does not guarantee success. Successful market systems depend on a framework of laws and property rights; likewise, in Canada, local government systems depend on the legal framework the provincial government provides. If one has a religious-like faith in large bureaucracies, any system of many governments will appear chaotic — just as markets appeared chaotic to Adam Smith's precursors (and are still difficult for many of us to comprehend). When one looks more closely at metropolitan areas composed of a multiplicity of governments, however, systematic patterns can be seen and features of successful systems can be identified. Among the most important characteristics, for governments of all sizes, is "fiscal equivalence."

Fiscal Equivalence

Councillors faced with a decision about service provision in a small municipality are strongly influenced by financing considerations because even low-cost items can make a difference in tax rates or user charges for their constituents. But as governments get bigger, councillors tend to spend less time on the financing of individual programs or projects that represent a diminishing proportion of their growing budget; large governments are also more responsive to special interest programs and projects than are small governments.

Fiscal equivalence exists when citizens who benefit from the expenditure are those who make or influence the decision and pay its costs.

The incentive system for encouraging councils to make efficient expenditure decisions has come to be called "fiscal equivalence" (Olson 1969). Fiscal equivalence exists when citizens who benefit from the expenditure are those who make or influence the decision and pay its costs.

When the beneficiaries also pay the costs, they have an incentive to choose an efficient level of service. Such internalization is not as "perfect" as it can be with individual purchases in a market, but it is as good as we can achieve for government activities. Fiscal equivalence can apply to individuals who benefit from a service such as a swimming pool or parking space, or to small groups such as hockey teams that use the local arena, the user charges being analogous to prices paid in markets.[3] Although user fees are charged for some specific services, local governments also provide a variety of general services for their residents and levy taxes to pay for them. In the latter case, the demand for services will be less clear than that for a single service for which a fee is charged, but it is still important that local citizens are able to influence directly the choice, and pay the cost, of the services to be provided. Such citizens are analogous to members of a consumer cooperative. By

3 For an exposition of the user fee argument, see Kitchen (2000). The concept of fiscal equivalence extends that argument to the groups of people that make up the local municipality itself.

grouping together, they obtain greater benefits than they could individually, but they are still responsible for what is provided and how to pay for it (Bish 1999a).

Fiscal equivalence also has a temporal dimension in that current beneficiaries should pay for their current benefits and not pass those costs on to future residents. Only where a high degree of fiscal equivalence exists do councils have the incentive to compare the effect of both costs and benefits on their citizens, and without such an incentive there is little reason to expect that efficient expenditure decisions will be made. Individual units in complex systems of any kind, including local governments in metropolitan areas, need incentives to balance costs and benefits in their decisionmaking if the system as a whole is to be stable and well functioning. Fiscal equivalence for local governments is unlikely to be achieved perfectly, just as all market transactions cannot internalize all externalities, but some systems are much better than others in meeting this criterion.

Local governments in Canada vary in the degree to which they exhibit fiscal equivalence. Systems of small local governments, such as British Columbia's regional district system, have very high levels of fiscal equivalence. Larger municipalities often attempt to achieve fiscal equivalence by creating special benefiting areas in which properties are taxed specifically for a specific service (Vojnovic 2001). Halifax Regional Municipality has over 60 such areas (1997), while, in the United States, Indianapolis–Marion County has over 100 separate taxing areas within its boundaries (Bloomquist and Parks 1995a). If large governments do not use special taxing areas, there is an incentive for each small area to request a greater expenditure than it will have to pay for because the costs will be spread over the larger jurisdiction. And with the bargaining that goes on in ward-based councils, there is an incentive to vote for other people's projects so they will vote for yours. The net result is not only larger expenditures but expenditures for services that cost more to provide than the value that recipients place on them.

If large governments do not use special taxing areas, there is an incentive for each small area to request greater expenditure because the costs will be spread over the larger jurisdiction.

When one examines the match between beneficiaries and those who bear the costs, it is important to realize that different activities may need to be undertaken at different scales. For example, some activities, such as social services, should not be assigned to small governments because of the unfairness of asking the residents of a local government jurisdiction to pay for services whose recipients are unevenly distributed over a metropolitan area or province (Bish 1971, chap. 7).

Assigning the funding of social services to small local governments also creates incentives for the municipal council to adopt policies that discourage potential recipients of services from living in their municipality. These policies can include zoning restrictions on low-cost housing, rigorous enforcement of housing codes that results in housing costs that social services recipients cannot afford, and residential neighborhoods that are poorly served by public transit (Bish and Nourse 1975, chap. 9). When local government is responsible for the financing of social services, there is often pressure to increase the geographic scope of the government. But with larger local government comes diminished governance, so that, in most provinces, social services are funded by the provincial government.[4]

The traditional observation that small local governments are more democratic and representative of their citizens has been supported by extensive research in

4 In Ontario, funding of social services takes up 25.1 percent of municipal budgets, while in the rest of Canada it averages 1.2 percent (Kitchen 1999).

North America and Europe. Although these benefits are recognized, it has been argued that they should be sacrificed for other benefits: lower costs and better regional coordination. One cost of government is that of elected officials themselves.

Only a few studies have been made of the cost of elected officials. Bish (2001) compares the costs of 88 elected officials and their support staff in 13 governments with the costs of 23 elected officials in an amalgamated government serving the same population. The study concludes that the per capita costs of both were low (less than one-half of 1 percent of expenditures) and, moreover, that because of the higher salaries and larger support staff for the fewer officials in the amalgamated government, the per capita costs in the two systems were virtually identical: $4.55 in the amalgamated system and $4.59 in the 13 small governments. Lightbody (1998) finds similar per capita costs in comparing the Calgary and Edmonton areas.[5] In neither of these cases was there a second set of elected officials, but in general governance costs are a trivial part of the overall cost of local government (Price Waterhouse 1996). The real costs are in the delivery of services, and the critical question is what incentives there are for councillors to make decisions that will lead to those services being delivered efficiently.

Governance costs are a trivial part of the overall cost of local government. The real costs are in the delivery of services.

The Production of Local Government Services

Even when it is recognized that smaller local governments provide better opportunities for citizens to express their wishes and are more responsive to those wishes, and that the cost of elected officials is extremely small, a traditional argument against small governments has been that the benefits of cost savings from a large metropolitan-wide government would offset the sacrifices of giving up smaller local governments.

This section describes the nature of local government services and analyzes economies and diseconomies of scale, the effects of competition on service production, the relationships among government size, structure, and costs, and the relationships between the organization of production and efficiency.

The Nature of Local Government Services

The various services local governments provide have very different production characteristics. A few, such as water supply and solid waste disposal, require large capital investments and have outputs that are relatively easy to measure; others, such as police patrols, are labor intensive and difficult to measure. This diversity

5 Lightbody agrees that the total cost of elected officials is very small. He also concludes, however, that the smaller number of local governments in the Calgary area leads to costs of governance that are lower than those in the Edmonton. This conclusion is biased by Lightbody's use of 1981 metropolitan area boundaries, which include eight very small villages and summer villages that are located up to 100km from Edmonton, while excluding municipalities — such as Okotoks, High River, Strathmore, and the Municipal District of Foothills — that are much closer to Calgary. Harrington (1999), who corrects for geography and uses the same year in each for expenditure data, finds that governance costs are higher in Edmonton than in Calgary. It should be noted that in neither British Columbia nor Alberta are two sets of general local government officials elected from the same area, as they are in Ontario's two-tier systems.

The diversity of local government services makes it impossible for any one organization to be an efficient producer of all of them.

makes it impossible for any one organization to be an efficient producer of all local government services. The production environment is even more complicated because within any one "function" (say, policing), different "activities" (such as police patrols, homicide investigation, crime laboratories, and so on) possess significantly different characteristics. In general, activities that require large capital investments are easy to measure, are needed only rarely, possess economies of scale in relation to the population served, and may be produced most efficiently for large populations. In contrast, activities that are labor intensive, difficult to measure, and performed frequently and regularly are likely to possess *diseconomies* of scale — that is, the average costs actually increase with the size of the organization producing the service. Adaptation to the diverse production characteristics of local government services has resulted in production systems consisting of organizations of many different sizes, especially in urban areas, and exhibiting much more complexity than the organization of local governments themselves. In so adapting, local governments have learned to contract out or enter into joint agreements for the production of many activities, but they report expenditures only for complete functions, and provide no information as to how production itself was actually organized or undertaken.[6]

The difficulty of comparing local government expenditures with production arrangements is also complicated by the observation that few production organizations in either the public or private sector operate as efficiently as they could. There are several explanations of the differences between economists' simple models of perfectly functioning firms and the actual performance of firms, the most thorough of which are those of Liebenstein (1966; 1987) and subsequent scholars (such as Frantz 1997), who examine what they label "micro-micro economics." One of their most important observations is that organizations perform more efficiently when there is some, but not too much, rivalry or competition. Apparently, the existence of some competition provides a stimulus to managers to try continually to improve efficiency, but too much competition results in an environment where responses are less effective at improving the performance of the organization. Although Liebenstein's initial research was undertaken to explain why private monopoly producers prefer to be inefficient rather than to reduce output and raise prices to increase profits (as predicted by microeconomic theory), his observations are also relevant to the study of local government production, where producing organizations may also be monopoly producers.

In addition to the observation that organizations do not function as efficiently as they might, other analysts (Landau 1969; Miranda 1995) have noted that it is

6 Data collected by Statistics Canada and provincial governments on expenditures for separate local government functions, in contrast to total expenditure, are unhelpful here. This is because the categories used do not resemble the internal departmental structures of local governments. For example, protective services include fire and police, which are usually organized in separate departments, but inspections may be part of a planning or engineering department. The smaller the government, the more serious is the problem. In a typical small government, an engineering group will look after roads, drainage, the water supply, sewers, inspections, and facilities in parks, but its budget will not be differentiated according to the amount of time spent on each of these functions and the group will have no incentive to report accurately the costs of dealing with them. Moreover, expenditures do not indicate whether those for different activities within the category were incurred as part of an in-house production organization or by purchasing a good or service from another organization.

important for both an organization and an economy to possess some excess capacity and redundancy. Excess capacity in an organization provides a margin of safety for unanticipated problems, and firms in a market economy must possess excess capacity to enable consumers to switch purchases from one firm to another. Local governments also require excess capacity and redundancy, but this is usually reported as inefficiency. It is this kind of inefficiency that socialists and central planners hoped to eliminate. Unfortunately, however, eliminating redundancy in a government organization also appears to eliminate its capacity to adapt to changing conditions.

Local governments also require excess capacity and redundancy.

The diverse activities of local governments and their possible role as monopoly providers of services within a geographic area mean that, if local government service production is to respond efficiently to citizens' wishes, local councils must overcome two critical problems simultaneously. First, they must obtain services from organizations that are of an appropriate scale to be efficient producers. Second, they must try to avoid obtaining services from a monopoly producer; if that is not possible, they need to be able to offer incentives to encourage producing organizations to be efficient. Neither problem is new, and both have been well described in the urban government literature since the 1970s (see, for example, Bish and Warren 1971).

Economies and Diseconomies of Sc

Three methods of determining the scale at which a local government activity is produced most efficiently have been described in the literature, but none of them provides definitive answers (Hirsch 1970).

The earliest method is the engineering/accounting approach, in which unit costs are calculated for outputs, often with a distinction between average and incremental cost, and optimum sizes are determined in relation to different levels of capital investment. This method works reasonably well for engineering activities of similar scale where measurement and management are relatively easy. It does not work well for very large increases in size or complicated projects because the engineering/accounting approach implicitly assumes that management always functions efficiently and that no diseconomies are introduced by loss of management control as projects become larger. This method, by assumption, has eliminated the most significant reason for diseconomies of scale — the loss of management control in large organizations. Cost overruns on large projects in both the private and public sector also indicate that this is not a good assumption. Similar methods of estimating the consequences of major governmental reorganization such as the amalgamation of Halifax, Bedford, Dartmouth, and Halifax County into the Halifax Regional Municipality, have demonstrated similar problems, as this *Commentary* will show later. The engineering/accounting method is useful for small projects or reorganizations, but not large ones.

A second method is a statistical estimation of an average-cost-of-production curve to determine the lowest-cost size range. These studies assume that the organizations included in the sample are themselves producing efficiently or that any deviance is distributed randomly. There are, however, several problems with these statistical studies, three of which are especially important. First, they tend to

be of entire functions, not individual activities within functions. Second, outputs are often difficult to quantify in terms of quality and quantity and most studies resort to population-served output measures. And third, expenditures and population data are nearly always those of the providing government, *not those of the producing organization or organizations.* Thus, what is being measured is not the scale effects of a producing organization (analogous to the concept of economies of scale in economics) but the ability of the providing government to organize production efficiently. These problems mean that nearly all statistical studies of local government economies of scale are not studies of production but, at best, indications of how well the local government has organized production arrangements with different organizations engaged in different activities.[7]

The third way of determining efficient scales of local government service production is analogous to similar studies of industrial organization. In these studies, systems are examined to see what has evolved and survived. In private markets, for example, one would look for the size of a producing organization that was increasing its market share relative to other firms. In local government, one would look at what kind of arrangements exist in metropolitan areas to see if common patterns of production arrangements are emerging. For example, a detailed examination of production arrangements in policing in Standard Metropolitan Statistical Areas (SMSAs) in the United States (Parks and Oakerson 1999) reveals that it is common to have a large number of police patrol producers (where there are no identified economies of scale over very small detachments of four or five officers); many fewer dispatching systems, detention facilities, and low-level crime labs; even fewer high-level crime labs and information systems; and only one or two training facilities for police officers. The patterns that emerge are those that appear to accommodate the characteristics of the different activities, and they provide insight as to where economies of scale exist.

These studies also move beyond simple population measures and examine the structure of policing in a metropolitan areas in a variety of ways. One technique, for example, translates inputs (total number of sworn officers, total number of civilians employed, total number of vehicles available, and total number of crimes reported) into outputs (number of officers on the street at 10 p.m. and number of crimes cleared by arrest) to evaluate different ways of organizing policing in metropolitan areas (Parks 1985). With the aid of sophisticated statistical techniques, the study identifies 14 benchmark systems in 76 metropolitan areas and compares them with others. Inputs are translated into outputs with an efficiency that ranges from 40 percent of the benchmark up to the benchmark, with an average efficiency of 77 percent. Most important, the metropolitan areas with higher levels of efficiency are those where different activities are provided by organizations operating over different scales, including relatively small police patrol departments that make arrangements with larger organizations for services when economies of scale permit.

The metropolitan areas with higher levels of efficiency are those where different activities are provided by organizations operating over different scales.

7 In a survey of alternative service delivery in British Columbia, McDavid and Clemens (1995) found that private contractors were involved in 35 percent of regional district services and from 27 to 37 percent (depending on population) of services provided by municipalities. My analysis of service production in the municipalities of British Columbia's capital region (Bish 1999c) shows that it is precisely where one would expect economies of scale that smaller municipalities delegated responsibility to the regional district or engaged in alternative service delivery.

Less efficient are metropolitan areas whose small departments try to undertake many overhead services for themselves, as well as areas dominated by large departments that undertake activities, such as police patrols, to which economies of scale do not apply.

This research is consistent with other studies on policing, including a Canadian study that compares regional policing in the Niagara, Ontario, region with municipality-based policing in the Windsor, Ontario, region (Krushelnicki and Belevedere 1988), and a statistical study using multiple outputs that concludes that diseconomies of scale begin in police departments serving municipalities with a population over 50,000 (Gyimah-Brempong 1987). It appears that diseconomies of scale in producing police patrols outweigh the cost savings in overhead services for large police departments, whereas small departments devoted to patrol can cooperate to obtain overhead services at less expense. Again, overall savings can be realized if different organizations are used to produce different activities.

Similar results have been observed in other local services. For example trunk sewer lines and treatment plants are often built and operated on a regional basis, while sewage is collected from residences and businesses by a smaller producer. Similarly, water may be supplied from a large dam or reservoir but distributed by smaller organizations.[8] In fact, when one looks closely at the production of local services, one finds that there are many accommodations to scale in the production of local government services and that no single size of organization is suitable for all of them, even within a single function.

Most researchers conclude that approximately 80 percent of local government activities do not possess economies of scale.

Attempts have been made to sort out activities that possess economies of scale and those that do not. Most researchers conclude that approximately 80 percent of local government activities do not possess economies of scale beyond relatively small municipalities with populations of 10,000 to 20,000. The other 20 percent, which do possess economies of scale, are mostly specialized services, such as homicide investigation or traffic light maintenance, that are needed only infrequently; only a very few are large capital facilities such as waterworks, landfills, recreation centers, or sewage treatment plants, where the economies of scale derive from spreading the benefits of a large capital investment over production for a large population. The rest occur because some specialized services are needed only infrequently by small municipalities.

In a few additional areas, including a variety of police overhead services (such as academy training and major crime laboratories), all three approaches indicate that economies of scale exist for a particular activity (Bish 1999c). For most activities, however, local conditions are much more important than the inherent characteristics of the particular activity. For example, although there are economies of scale in police dispatching, a small police department that wants to keep its police building open to the public 24 hours a day may choose to do its own dispatching and have the dispatcher on site. From the municipality's perspective, the marginal cost of the dispatching activity may be nil. A similar observation may be made with regard to detention facilities: a large department or region may find it efficient to construct a

8 My analysis (Bish 1999c) of how 283 different activities are produced by 12 different municipalities in the capital region of British Columbia indicates that, for every major function, different activities are carried out by different organizations.

jail and employ full-time staff, but a small department may simply have several cells behind the dispatcher and contract out for food services and maintenance. The latter approach may be cheaper, but it is not a practical solution for a medium-sized or large department, and it is likely that a medium-sized department will find it less expensive to contract for jail services from a large department or regional facility. The important conclusion to be drawn from detailed analyses of how local governments actually get services produced efficiently is that these kinds of decisions can be made only on the basis of local knowledge. Such knowledge simply cannot be processed in large amalgamated systems.

The important conclusion to be drawn from detailed analyses of how local governments actually get services produced efficiently is that these kinds of decisions can be made only on the basis of local knowledge.

Industrial organization economists are not surprised that, even though economies of scale appear to exist in retailing food through supermarkets, a wide range of other food outlets, from corner stores to warehouses, exists to meet customers' specific needs. Virtually any private service is likely to be produced or delivered to customers through firms of various sizes and organized in a variety of ways. Given the diversity of municipal services, which is much greater than the product line of any private company, one should not be surprised at such diversity in the municipal sector as well.

Competition in Production

Scale adjustments are only half the problem of efficient production. The other half is to be sure that producing organizations have incentives to be efficient. Much of the research on this issue has compared in-house production with production that has been contracted out to another organization, usually a private firm. The important variable, however, is not public versus private but whether or not the producing organization produces in a competitive environment so that its management is stimulated to seek efficient production.

Several surveys of alternative service delivery (for example, Bish 1986; Kitchen 1993) provide a history and review of many studies. The most recent thorough analyses of alternative service delivery in Canada, and the only Canada-wide studies, are those directed by Jim McDavid of the University of Victoria (McDavid 1985; McDavid and Eder 1997; McDavid and Laliberte 1998; 1999).

The 1985 study found that solid waste, when collected by local government crews, cost $42.29 per household, but when collected by private crews it cost only $28.02 per household. In a mixed system, where public crews competed with private contractors, collection costs were $31.31 per household. The study further revealed that public collection cost 50.9 percent more than contracted-out collection, the principal reason for the difference being the relatively large crews and small trucks used by the public collectors and the extra trips they thus had to make to the landfill. The study also found that when municipalities compete with private contractors, they tend to copy the practices of private firm practices.

In a follow-up study of solid waste collection, McDavid and Eder (1997) found that the performance of municipal crews had improved since 1985, but in-house municipal crews were still 22.3 percent more expensive than private collectors for the same reasons as before but also because private crews lost fewer days to labor disputes. This study, which was large enough to undertake regional breakdowns,

found that private collectors were less expensive than public crews in every province and region except Quebec.

A study of land-fill management (McDavid and Laliberte 1998) found similar results, with landfill sites managed primarily by private contractors costing only 67 percent as much per ton to operate as those operated primarily by public crews.

With respect to recycling programs, however, a national survey (McDavid and Laliberte 1999) found no significant difference between programs run with in-house crews and those run under contract to local government; on the other hand, recycling programs are relatively recent in origin. It appears that, although public and private managers are equally capable of starting new programs, over time public managers lack the same incentives to continually improve their efficiency as do private contractors who must bid competitively to remain in business or that the local government decisionmaking process itself does not permit constant upgrading to maintain efficiency. For example, if newer and larger garbage trucks raise productivity and permit lower bids, the private firms that buy new trucks will win the contracts. In contrast, a public manager may know that new trucks would improve productivity, but a city council may refuse to authorize their purchase in order to keep down short-run costs at the sacrifice of long-run savings. Public sector unions may also be unwilling to reduce crew sizes, whereas in a unionized private sector firm, both management and union may be more likely to recognize that it is better to win bids with smaller crews than to lose bids by insisting on costlier larger crews.

A final conclusion of these studies is that when public producers compete with or are regularly compared with private firms, they tend to become more competitive. In other words, the important variable does not appear to be public versus private; rather, what stimulates better performance is a competitive environment.

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The Organization and Cost of Local Government

Many studies have focused on how the structure and cost of local government are related in metropolitan areas. These studies use published information for functional and total expenditures but do not attempt to sort out which activities each government provides its citizens or to assess the quality of the services provided. None of the studies examines the actual structure of production of the different services. Instead, they focus on population size and the existence of competition — although the two characteristics are related since an urban region composed of a multiplicity of rival municipalities is more likely to include some that are small in size than an urban region composed of only a few municipalities.

Cost and Population Size

A good example of an early Canadian study is Bodkin and Conklin (1971), which looked at local service costs and municipality size in Ontario by examining eight functions and a variety of variables beside government characteristics, such as the income of a municipality's population, to determine both the determinants of

Different functions respond very differently to scale.

expenditures and scale effects. The study concluded that different functions respond very differently to scale, that there are economies of scale for municipalities with populations of up to 140,000 for water supply and 180,000 for public works, but that minimum costs are achieved in six other categories (fire, police, sanitation and waste removal, health, recreation, and general government) in municipalities with populations of 5,000 to 10,000.[9] It is, however, virtually certain (although the study did not report this finding) that the small, lower-cost municipalities obtain some of their services from other organizations.

Another Canadian study, Krushelnicki and Belevedere (1988), compared costs and output measures for five services provided by municipalities in the Windsor area and by the Niagara regional government (at the time of the study, Windsor had a population of 312,000 and Niagara, 368,000). The study found that water and sewage treatment services were more expensive in the Windsor area on both a per capita and per volume basis. Day care and homes for the aged were less expensive per capita and per user in Niagara, but the service was provided to one-third as many children and fewer than one-half as many elderly, with the consequence that both Niagara programs were much smaller than the higher-cost Windsor programs. In policing, Windsor was less costly than Niagara on all measures. These results are consistent with other research: the capital-intensive activities of water and sewage treatment were provided more cheaply by the regional government, while the labor-intensive activities of day care and homes for the aged were provided more cheaply provided in the smaller program, even though the program was run by the regional government. And in policing, where the costs of the labor-intensive activity of patrolling appear to outweigh the benefits of consolidated specialized services in a larger organization, the costs by all measures (per capita, per officer, per offense, and per area patrolled) were lower in Windsor.[10]

In the United States, studies by the Advisory Commission on Intergovernmental Relations in the 1970s concluded that per capita costs generally fall for municipalities with populations of up to 25,000, remain fairly constant up for those up to 250,000, but then rise significantly. However, these studies did not take into account either the structure of production or the responsibilities of the local governments, which differ among classes of municipalities within and among states.

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9 Although no one has researched the difference between small governments in metropolitan areas and small governments in rural areas, the former likely have greater opportunities to purchase services from or jointly with other local governments and thus keep costs down in a way that is not possible for small rural governments. This may be why some metropolitan areas in the United States have many local governments with populations of fewer than a thousand.

10 See Kushner (1992) for a summary of other Canadian studies. Like most authors, Kushner treats studies of the cost to municipalities as analogous to economists' economies-of-scale studies and ignores the fact that different activities within functions possess different scale economies and that municipalities are able to purchase services from elsewhere that they themselves are unable to provide. He concludes that the optimal size of a municipality is a population of 250,000, but this conclusion does not follow from his own summary of studies and is impossible to reconcile either with the conclusions of other scholars or with evidence that the municipalities with the lowest costs are much smaller. Furthermore, one cannot jump from evidence on the efficient-scale production of a local service, which is a supply-side characteristic, directly to a conclusion about the organization of local government, which is a demand-side or governance characteristic.

Even though small municipalities have the lowest per capita costs,[11] they are not necessarily more efficient *producers* of public services. Costs appear to rise with size for three reasons (although no statistical analysis appears to have been undertaken to distinguish them).

One reason is that central cities and employment nodes must provide services for day-time populations (including commuters and shoppers) that are much larger than the night-time (resident) population on the basis of which per capita *costs* are calculated. Second, larger municipalities often undertake more activities than smaller ones. And third, there are diseconomies of scale in producing some services.

For example, Bish (1999b) finds that, of 12 municipalities in the capital region of British Columbia, the one with the highest per capita costs is the central city of Victoria (population 76,000), which undertakes many functions for and incurs costs of commuters and shoppers. The municipality with the second-highest costs is Oak Bay (18,000), which provides a very high level of services to its residents. The largest municipality, Saanich (107,000) is essentially a residential suburb with good services; its per capita costs are the fifth highest in the region. The six municipalities with the lowest per capita costs range in size from 1,500 to 19,000 people.

Three important conclusions can be drawn from the relatively simple research relating costs to size. First, in a wide range of municipalities, size is not the primary determinant of costs. This finding is not unexpected, since no government is the right size to produce everything itself. To obtain services efficiently, governments can contract out to smaller or larger organizations, produce jointly with other governments, or receive the service from a regional organization. In addition, not all residents value lower costs over more, or better, services. Second, although larger municipalities — that is, those with about 250,000 or more people — cost more, it is not clear in what proportion the various cost-increasing influences contribute. Third and most important, there is no evidence that per capita costs are lower in large municipalities or that they are better able to meet their residents' demands for services than small municipalities (Derksen 1988 draws similar conclusions from a survey of local government in Europe). In summary, *there is no reason to sacrifice the benefits of greater citizen participation and representation that are a feature of small governments only to create a larger government that costs more and provides services that are less likely to meet local preferences.*

There is no reason to sacrifice the benefits of greater citizen participation and representation only to create a larger government that costs more and provides services that are less likely to meet local preferences.

Municipal Competition and Costs

Another key issue is the way in which municipalities compete with each other on costs. Eberts and Gronberg (1988) and Miller (1993) find that competition is related to lower expenditures by municipalities, while Sjoquist (1982) finds that expenditures per capita fall as the number of jurisdictions in the metropolitan area increases. Schneider (1989) indicates that, as the number of municipalities bordering a city

11 This is not the case for municipalities with fewer than a thousand people, which appear to reduce costs by amalgamating with a small neighbor (Brisson 1996). Municipalities with fewer than 5,000 also often have higher expenditures than those with 5,000 to 15,000 (Bish and Clemens 1999, 34).

increases, the city's tax bill falls and that expenditures are lower in regions with more variation in tax bills across communities.

Some US studies indicate that the cost of local government is lower in states that make it easy to create new municipalities compared with those where annexation of adjacent territory is the preferred policy (Martin and Wagner 1978; Mehay 1981). Moreover, when California introduced restrictions on the creation of new local governments, the annual rate of expenditure increases for existing municipalities went up (Martin and Wagner 1978).

Competition among municipalities is not, however, confined to costs. One study of students' academic achievement (Staley and Blair 1995) concludes that school district performance is positively associated with the performance of neighboring districts. Recent research finds that the larger the number of school districts in a metropolitan area, the lower the cost per student and the better students perform on standardized tests (Hoxby 2000).

The larger the number of school districts in a metropolitan area, the lower the cost per student and the better students perform on standardized tests.

After examining more than 60 statistical studies relating local government structure to cost, Boyne (1992a) concludes:

- [T]he horizontal fragmentation of multi-purpose governments (a multiplicity of municipalities) is associated with lower spending (this is consistent with urban areas comprised of smaller governments having lower costs)....
- [L]ocal government units compete in a market which is geographically limited and such competition is associated with lower spending....
- [V]ertical concentration of market share in large top-tier units (i.e. the regional government spends more than the municipalities) is associated with higher spending....
- [T]he establishment of barriers to entry (e.g. restrictions on the creation of new municipalities) is positively related to expenditures by the local government's units that are protected by the barriers.[12]

These results are completely consistent with the findings of Bodkin and Conklin (1971) for Ontario, of Parks (1985) on policing in US cities, and of Liebenstein (1966), who observes that managers perform better in the face of stimulative competition. The one large-scale amalgamation that has been studied over time — that of the City of Jacksonville and Duvall County in Florida — also confirms these findings: not only did costs increase, but the annual rate of increase rose both post-amalgamation and compared with a nearby comparable unreformed metropolitan area (Benton and Darwin 1984).

In 1972, California's then-governor Ronald Reagan appointed an independent task force of academics and municipal mangers to determine whether, as he assumed, many small governments cost more than a few large ones. The task force concluded:

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12 These findings are consistent with economists' conclusions about the relationship between the way an industry is organized and the prices it charges consumers for its products. For example, Martin and Wagner's (1978) finding, referred to above, that local government costs in California rose when that state imposed restrictions on the incorporation of new governments should not surprise economists, since such restrictions merely give monopoly power to the existing units by preventing the entry of new competition.

> [A] system of highly flexible and independent local government units is as capable or more capable of providing the quality of service that people expect [as] a centralized and consolidated government system. In fact, our evidence on functional costs, on economies of scale and on the impact of professional influence, indicates that a reduction in the number of governmental units, through consolidation of local units, would produce a system less likely to provide public services of a quality and at a cost that suit the diverse preferences of the citizens of California. (Task Force on Local Government Reform 1973.)

On the basis of this conclusion, California abandoned initiatives toward amalgamating local governments.[13]

In summary, there is overwhelming evidence that *the least expensive local governments* are found in polycentric systems of small and medium-sized municipalities that also cooperate in providing those services that offer true economies of scale. Large municipalities do not seem to be as capable of cooperating in this way, of decentralizing their services, or of using alternative delivery mechanisms for services that lack economies of scale.[14]

The cost argument having thus been demolished, advocates of municipal amalgamations then argue that they enhance economic growth and result in better planning. So far, however, no consistent relationship has been found between the structure of local government and various measures of economic growth, although good transportation, education, and public safety have been identified as important variables (Fisher 1997). In fact, some of the most rapidly growing urban regions in the United States — Silicon Valley, Boston, Dallas, Seattle-King County (home of Microsoft and Boeing) — are also among the most governmentally fragmented areas in the country. Furthermore, if officials really believe that consolidation facilitates growth, consolidating the growth-promotion process is compatible with retaining a polycentric local government system in order to maintain democratic accountability and more efficient service production (Hawkins, Ward, and Becker 1991). The amalgamationist position on economic growth and planning appears to result not from the evidence but from a nineteenth-century faith in large bureaucracies.

Some of the most rapidly growing urban regions in the United States are also among the most governmentally fragmented areas in the country.

No doubt, analysts are able to identify areas — including, perhaps, even economic development and planning — where governments of any size can improve their performance. But any existing government will appear to be inefficient compared to an engineering/accounting determination of perfection or to an abstract model.[15] And any newly created organization inevitably will develop its own inefficiencies; moreover, evidence suggests that the larger the local government, the greater its inefficiencies are likely to be. It is thus safer to draw

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13 See also Sancton (2000), who, 27 years later, comes to a similar conclusion.

14 In the United States, Indianapolis and Phoenix are among the very few large municipalities that have made efforts along these lines (see Goldsmith 1997). The reason others have not done so may be related either to unionization or to their large scale.

15 If an existing organization is compared with an ideal model, the ideal always comes out on top. James Buchanan describes this as the "second-singer approach" to awarding the prize: the judges listen to the first singer and then immediately award the prize to the second singer without hearing him. This is the approach of most amalgamation studies.

conclusions about the relationship between local government structure and performance from what actually exists, not from a consultant's report on the utopian ideal. It is also necessary to recognize that the higher cost of large monopolistic producers is most likely to appear not all at once but gradually, since they lack incentives continually to improve their performance. At the same time, actual performance is virtually never as efficient as possible, so efficiency studies should discover opportunities for improvement. One must be careful, however, to distinguish between improvements that might come from changes in organizational structure and those that follow from incremental increases in efficiency over time in any organization. Sancton (1996) observes, for example, that virtually none of the benefits identified as flowing from the amalgamation of Toronto-area municipalities required reorganization but were merely improvements in practices that could have been made within the existing system.

Integrating Governance and the Production of Local Services

The structures that most successfully facilitate responsive governance can also be the least expensive.

Research on local government has found that the structures that most successfully facilitate responsive governance can also be the least expensive. This is probably why the US states that allow the greatest flexibility in the organization of local government continue to be characterized by a multiplicity of relatively small local governments and a small number of regional organizations (usually a county or counties) that help facilitate regional cooperation. The most serious problems occur *within* the largest units, usually central cities, where large bureaucracies are unable to accommodate diverse demands or keep costs low, which then contributes to the growth of suburbs whose local governments are a more appropriate scale.

Equally important, local governments, no matter how small, can draw on a great number of producing organizations to help them make a range of services available to their residents that would otherwise be impossible for them to provide within their own small bureaucracies (Advisory Commission on Intergovernmental Relations 1987; 1988; 1992; Oakerson 1999). Before the discovery of more systematic evidence on how small local governments actually provide services, there were many proposals for municipal amalgamations in the United States. After repeated defeats of such proposals at the polls, citizens and local officials found that they knew a lot more about how local government actually worked than did the academics and "good government" groups that idealized large bureaucracies (Bish and Ostrom 1973, 85). Ultimately, even those organizations with a long history of advocating reform through amalgamation came to recognize that small governments can provide an appropriate level of services (Advisory Commission on Intergovernmental Relations 1987). Given what we now know about the benefits of small governments for democratic representation and the need to have services providers of a variety of scales, preferably functioning in a competitive environment conducive to efficiency improvements, it is useful to examine a few local government issues in a Canadian context.[16]

16 The most complete text on Canadian local government is Tindal and Tindal (1995), which has a political science focus. The only local governance book that emphasizes production arrangements is Bish and Clemens (1999).

Single-Tier Systems

Seven Canadian provinces have single-tier systems of local government. Although there has been no systematic research on the extent to which these governments cooperate with one another to provide services (where there are benefits of operating on a larger scale), there are many examples of agreements between municipalities and of contracting out to nonprofit organizations or private firms that provide services to more than one local government (see Glover 1999; Sancton, James, and Ramsay 2000). Recognizing that benefits may be had from more systematic regionalization without eliminating smaller municipalities, reviews have been undertaken in Edmonton and Calgary (Alberta Capital Region Governance Review 2000), and Newfoundland has created new Regional County Services Districts (Task Force on Municipal Regionalization 1997). These examples resemble the regional district system that exists in British Columbia, which has Canada's most fiscally equivalent system of local government.

British Columbia's Regional Districts

British Columbia has a long history of allowing its residents to take the initiative on the structure of their local governments.

British Columbia has a long history of allowing its residents to take the initiative on the structure of their local governments. As early as 1919, for example, the province's legislature failed by just one vote to allow "home rule," under which a municipality could have organized itself in any way and undertaken any activity not specifically forbidden by the provincial government (Bish and Clemens 1999, 18). This approach led to the creation of new municipalities and improvement districts throughout the province, but no general form of local government outside municipal boundaries. A philosophy of local responsibility has continued to play a significant role in the province's municipal legislation to this day.

In 1965, legislation was passed setting out procedures for the creation of 30 regional districts.[17] It was left to local governments in these areas to decide if they wanted to incorporate and, initially, no functions were required of them (Brown 1968; Collier 1972; Tenant and Zimhelt 1973; Paget 1998; Bish and Clemens 1999, chap. 4). In effect, the districts were a shell with procedures for representation, financing, adoption of functions, and boundary changes, but it was up to the municipalities and citizens in unincorporated areas to determine how these procedures were to be used.

Over time, the provincial government decided that municipal borrowing should be processed within regional districts before being brought to the Municipal Finance Authority (not a provincial government organization but a cooperative run by municipalities). For a while, regional district boards also served as hospital district boards for planning purposes. The only local government function the districts are required to perform is planning for solid waste disposal, which can be done by an entire district or divided among municipalities and unincorporated areas as appropriate. Otherwise, a regional district can act as a rural government

17 Over the next four years, 29 districts incorporated themselves (27 remain today, as three have merged with other districts), covering all but the sparsely inhabited Stikine region in the northwest corner of the province.

for an unincorporated area, as a forum for the administration of local government services for any combination of municipalities or unincorporated areas within it, or as a regional government for the entire region if the people in the region so choose.

An important aspect of regional districts is that, except for representatives from rural areas that lack any other general local government, there are no separately elected officials on their boards. Instead, the councils of member municipalities appoint board members on a population-weighted basis so that, in effect, *municipal councillors are responsible for municipal services*, whether they are provided by the municipality or in conjunction with other municipalities or electoral areas through the regional district. Only those board members who come from areas that would benefit from a particular function can make decisions about that function. This rule makes fiscal equivalence explicit: representatives of the beneficiaries make the decision, and the costs are paid by residents of the benefiting area, not by everyone in the entire district.

Municipal councillors are responsible for municipal services, whether they are provided by the municipality or in conjunction with other municipalities or electoral areas through the regional district.

After more than 30 years of existence, British Columbia's small local governments continue to offer low costs to their residents while turning an increasing number of activities over to the regional districts. The usual practice, however, is *not* to transfer entire functions to the regional district, but only those that have a regional dimension or significant economies of scale in production.

For example, the Capital Regional District — composed of 13 municipalities, 3 electoral (rural) areas, and 6 First Nations — provides parks, a trail system, and three recreation centers; some individual municipalities within the district also provide recreation centers, and all municipalities provide local parks and recreation programs. The municipalities also use nonprofit organizations to assist with recreation programs, and the recreation centers contract out many programs. Activities delegated to the regional district level, however, include trunk sewers, sewage treatment and discharge (but not collection), water supply (but not distribution), landfill ownership and management (but not solid waste collection), regional growth management (but not local planning and zoning), 911 service (but not all local dispatching reached via 911), and, on a subregional basis, an art gallery and theater (but municipalities may also provide their own local support for the arts).[18] Such arrangements are best determined by local councils representing local citizens.

Like most organizations, however, regional districts do not function perfectly, and a recent evaluation recommends some changes in detailed decision rules and dispute resolution mechanisms (Bish 1999d). Regional districts are also criticized regularly for not doing exactly what one observer or another thinks they should and for the sometimes highly visible disputes among their members. What is important in a democratic society, however, is that conflicts should be visible, not buried in the decisionmaking processes of large bureaucracies.[19] The regional

18 In Bish (1999b; 1999c), I examine how 283 different local government activities are produced in the capital region, and trace the evolution of an important role for the region in providing major capital facilities and services where there are scale economies. My research also indicates that the municipalities use a wide variety of production arrangements to obtain services.

19 A good example of different interpretations of visible conflict is the critique by Alan Artibise, historian and planner and former University of British Columbia professor, of decisionmaking on transportation in the Greater Vancouver Regional District (GVRD). The provision of integrated...

district organizational scheme has also frustrated special interest groups such as environmentalists, arts councils, and developers, who find it much more difficult to influence councillors elected from small municipalities than if elections were held on a larger scale, where the number of issues could be narrowed and where financial contributions to campaigns are more important.

British Columbia's regional district system seems to be an appropriate model for those provinces, such as Alberta and Saskatchewan, that have single-tier systems. In such provinces, intermunicipal agreements currently exist that could be brought together in a forum to encourage further cooperation where it is beneficial. Most important, however, is that British Columbia's regional districts demonstrate that a system based on fiscal equivalence and small municipalities is quite capable of retaining good democratic representation while taking advantage of specialization and trade in local services. It is an adaptable model whose characteristics resemble those of municipal consumer co-ops in a "market" rather than those of an idealized unitary bureaucracy.

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Amalgamations in Nova Scotia and Quebec

Over the past several years, changes in local government structure have been legislated in Atlantic Canada, Quebec, and Ontario. In the short run, such reorganization may result in cost savings, but inefficiencies should be expected to creep in over time (Liebenstein 1966). Cost savings do appear to have been achieved in the case of Chatham-Kent, Ontario, an amalgamation of 11 municipalities (four of which had a population of less than 1,000) with a total population of 75,000. A recent survey of residents indicates, however, that they perceive the quality of services to have fallen (Kushner and Siegel 2000).

Nova Scotia

In Nova Scotia, the cities of Halifax, Bedford, and Dartmouth, Halifax County, and the metropolitan district were amalgamated in 1996 to form the Halifax Regional Municipality (HRM), with a combined population of 350,000. The Nova Scotia government forced this amalgamation over the objections of the municipalities involved and, while not as large as some in Ontario, it created a government that is far bigger than necessary to achieve economies of scale in production. Some

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Note 19 - cont'd.

...transportation, including arterial highways, public transit, sea bus, and regulation of air pollution was assigned to the GVRD through TRANSLINK, along with decisionmaking responsibility on the size of capital expenditures and how they should be financed (whether from user charges, property taxes, or a vehicle levy). The dispute over the GVRD's decisions on these issues has several dimensions, with the locally elected council members on the boards of TRANSLINK and the GVRD naturally bringing the perspective of their constituents to the debates, which are widely reported in the media. Artibise and others suggest that the dispute be resolved through a separately elected board that would decide "for the good of the region." Others, including the designers of the TRANSLINK system, believe the high level of public debate over important issues is precisely how a democracy should function, and that reasonable policies will result. They do not claim to know what the "best" policy would be. (Simpson 2001.)

activities, however, such as solid waste disposal, are likely to be undertaken more efficiently with a single capital facility.

The HRM is the only large-scale amalgamation in North America to have been monitored by a team of academics. The team's evaluation ended in 2000, which now appears to have been too soon for the new agglomeration to have achieved standardized operating procedures. What is clear, however, is that the HRM implementation study (Hayward 1993), which was a quite comprehensive example of its type, underestimated the cost of the amalgamation by a factor of four: by 1997, the original estimate of $9.8 million had ballooned to $26 million (Vojnovic 1997), and when the costs of a new financial management system and new labor agreements are taken into account, the final tally is likely to exceed $40 million. It is not yet apparent that any cost savings will result. From 1996 to 2000, user charges increased significantly and average residential property taxes rose by about 10 percent in urban areas and by as much as 30 percent in suburban and rural areas (Dann and Poel 2000). Debt has also increased, since, despite these tax increases, most of the implementation costs were financed through borrowing.

In Halifax, post-amalgamation, user charges increased significantly and average residential property taxes rose by about 10 percent in urban areas and by as much as 30 percent in suburban and rural areas.

Surveys of residents of the HRM reveal that they neither regard the entire region as a single community with much in common nor are they satisfied with the level of services the post-amalgamation government is providing (except in the case of solid waste management, where improvements were made before the amalgamation). It is important to remember, however, that it may take several years for the consequences of this amalgamation to be evaluated (Poel et al., forthcoming).

The HRM amalgamation included provisions for decentralized community councils, but their minimum size of three ridings with a population of 45,000 is very large in the Halifax context, and their boundaries do not correspond to the historic communities of Bedford and Dartmouth. How well these community councils will work remains to be seen — similar councils established in Winnipeg, for example, did not survive clashes with the city's professional bureaucracy. However, because the HRM councils can levy taxes to undertake specialized services, they have a degree of fiscal equivalence; when combined with their jurisdiction over local land use, the councils do possess some basis for sustainability within the larger system.

Yet, a number of problems are likely to move to the fore in the HRM in the near future. They include whether or not to continue to use the wealth of the central city of Halifax to subsidize rural areas, how to accommodate different preferences on matters not delegated to community councils, and how to provide incentives for the in-house producing bureaucracies, as area-wide monopolists, to become efficient. Taxation is another problem area. The HRM has adopted three basic tax rates (urban, suburban, and rural), and more than 60 pre-amalgamation special taxing areas (primarily in the former county) remain.

Clearly, the long-run success of such a large and diverse local government will depend greatly on how well the internal decentralized structure ensures that communities within the HRM pay for the services they want and do not attempt to get additional services just because they are paid for by the entire area, which would likely lead to high-cost local government.

Quebec

Quebec's Bill 170, which would amalgamate no fewer than 28 Montreal-area municipalities into one large city, is unprecedented in North America. The legislation proposes creating boroughs that, for the most part, would correspond to existing municipal boundaries, and appears to be a better way of decentralizing than was the case in Halifax, with one significant difference: there would be no fiscal equivalence in council decisionmaking at either the city or borough levels. Instead, the new Montreal city council alone will raise all revenue and provide grants to the boroughs. Inevitably, this will lead to competition between the city and the boroughs and among the boroughs for centrally raised funds, a fight in which the city is likely to prevail. Alternatively, competition for funds could lead to an accommodation whereby, as in the Halifax example, each borough demands, and receives, more services than its residents are willing to pay for because the costs are spread out over the entire city, which would lead to higher costs for everyone.

A second source of potential conflict likely to lead to higher costs is the proposal that all municipal workers should be employed by the city, rather than by the borough council for which they actually work. Not only would this create one huge personnel system and employee bargaining unit, it is also unlikely to contribute to the development of community feeling and responsiveness to local concerns on the part of employees.

In response to such cost pressures, the amalgamated city is likely to curtail borough expenditures and try to impose standardized services across diverse communities, which could have a negative impact on Montreal's economic development. And if Halifax's experience is any guide, implementation costs alone could exceed $100 million dollars. Moreover, the Montreal amalgamation is expected to be complete in one year — surely an unrealistic timetable.

Despite extensive, critical coverage of the proposed amalgamation in Quebec, the provincial government is pressing ahead with a religious-like faith in the efficacy of nineteenth-century solutions.

Despite extensive, critical coverage of the proposed amalgamation in Quebec, the provincial government is pressing ahead with a religious-like faith in the efficacy of nineteenth-century solutions.

Conclusions and Policy Implications

The Canadian evidence on the relationship between the structure and performance of local government is consistent with that from European and US experience. Urban areas have developed where residents have different requirements for public services, differences that traditionally have been better accommodated by relatively small local governments than by large central cities. Research shows, however, that size in itself is not the major determinant of per capita costs, and that governments of different sizes can deliver services efficiently. It is simply not the case that big governments cost less because they can achieve economies of scale.

In fact, smaller governments can cost less, not because they can produce all services efficiently but because they can take advantage of specialization and trade in markets without attempting to produce all activities themselves. Instead, they can use contracts and joint agreements to obtain services from larger producing organizations where there are economies of scale. In addition, unlike monopolistic government bureaucracies, producers of services that operate under contract are

obliged to meet the needs of their customers (the local governments that employ them) if they expect continued business. And even large local governments operate more efficiently when they sell services to smaller local governments (Warren 1966). Thus, the buying and selling of services among municipalities benefits those who are served by both the purchasing and the selling governments.

The conclusions of a half-century of research on the relationship between the structure and performance of local governments in metropolitan areas need to be taken into account when confronting the problems that inevitably arise in any polycentric system. The most important conclusion, however, is applicable to all problems: do not base recommendations on a comparison of an actual situation with an ideal. Such ideals are virtually always ideas from the past that are obsolete by the time they become popular.

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It is no longer useful to think of the ideal local government as a large integrated bureaucracy supervised by full-time politicians and run by professional bureaucrats. Instead, a system of local governments should be viewed as consisting of groups of citizens organized into cooperatives to provide services they prefer through a variety of production arrangements on a suitable geographic scale. The focus thus changes from single organizations to the incentives and relationships that prevail among multiple organizations.

The primary responsibility of local governments is governance, not production. Governance involves finding ways in which citizens can express their wishes and work with councillors to make decisions on regulations, what services to provide, what their quantity and quality should be, and how they are to be produced and financed. Encouraging citizens to be reflective and to participate in policy debates is important to the health of a democratic society, and local governments need to be small enough to play a role in strengthening civil society in an age of globalization in other arenas. Moreover, local governments represent a huge investment in social capital as well as a supplier of local services, and every effort should be made to retain them.[20] For local governments to function well, those that run them need to see both the benefits and the costs of the actions they take, and they need to be supplemented by larger-scale institutional arrangements that can facilitate cooperation among smaller governments and undertake activities (such as the financing of welfare and social services) that smaller governments simply cannot handle efficiently.

There is no one best way to govern regional institutions. If their role is to facilitate cooperation in the production of services, a model such as British Columbia's — regional boards made up of locally elected officials who are responsible to their citizens for local services — works well. This model has also been expanded to other regional activities, such as transportation and growth management planning, where it appears to work as well as alternatives elsewhere and may even be superior in that it ensures important issues are publicized rather than negotiated within a bureaucracy. In other cases, regional organizations may be governed by directly elected officials, but the scale of elections is such that the

20 In fact, since smaller municipalities can be expected to be more responsive to their citizens' wishes, major benefits could result from the breaking up of large municipalities. A serious effort is now under way, for example, to break up the City of Los Angeles, since the city is viewed as not serving its citizens as well as the other 80 or so smaller municipalities in Los Angeles County.

officials are much less likely to represent the views of the electorate and more disposed to the special interest groups that are willing to finance their election campaigns.

Finally, and most important, changes are likely to occur much more rapidly in the twenty-first century than in the twentieth. A system comprising self-governing, fiscally equivalent local governments of a variety of sizes and that draws in turn on a variety of different organizations for the provision of local services in a competitive environment will be much better able than any large, monopolistic local government to adapt to change. The future will require us to abandon any nineteenth-century idealization of bureaucracy and to recognize the benefits of polycentric systems. Only with such a change in thinking are we likely to realize the benefits from local governments that we have already achieved through markets and federalism.

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